

Message Text

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PAGE 01 TOKYO 00883 200620Z
ACTION SS-25

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-----200623Z 109106 /20

O 200556Z JAN 77
FM AMEMBASSY TOKYO
TO SECSTATE WASHDC NIACT IMMEDIATE 4867

CONFIDENTIAL TOKYO 0883

EXDIS

E.O. 11652: GDS
TGAS: EGEN, JA
SUBJECT: FUKUDA MESSAGE TO CARTER

REF: TOKYO 0640

SUMMARY: EMBASSY UNDERSTANDS FUKUDA MESSAGE ON WAY TO PRESIDENT ELECT CARTER PORTRAYING JAPANESE BUDGET AS IMPORTANT CONTRIBUTION TO LEADING WORLD OUT OF ECONOMIC DOLDRUMS. FUKUDA CABINET THIS MORNING APPROVED EXPANSIONARY BUDGET PROPOSALS BROADLY ALONG EARLIER EXPECTED LINES, WITH FURTHER INCREASES IN BOTH GOVERNMENT LENDING PROGRAMS AND PUBLIC WORKS EXPENDITURES. END SUMMARY.

2. AN ABSOLUTELY RELIABLE FOREIGN OFFICE SOURCE (PROTECT MOFA FULLY PLEASE) TOLD US THIS MORNING THAT PM FUKUDA WANTS TO SEND A MESSAGE TO PRESIDENT-ELECT CARTER BEFORE THE INAUGURAL ADDRESS. IN IT HE WILL REPORTEDLY CALL ON THE MAJOR ECONOMIC POWERS TO LEAD THE WORLD OUT OF THE ECONOMIC DOLDRUMS AND PORTRAY THE NEW JAPANESE BUDGET AS AN IMPORTANT CONTRIBUTION.

3. THE FUKUDA CABINET AGREED UPON ITS FY 1977 BUDGET PROPOSALS THIS MORNING (JAN 20). THE CABINET PROPOSALS ARE IN MAIN RESPECTS THE SAME AS THE MINISTRY OF FINANCE BUDGET PROPOSALS REPORTED IN SOME DETAIL LAST WEEK IN TOKYO 0640. TO WIT, THEY STILL CALL FOR A 17.4 PERCENT INCREASE IN GENERAL ACCOUNT BUDGET EXPENDITURES, CONFIDENTIAL

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WHICH IF DEFLATED BY PROJECTED INCREASES IN CONSUMER PRICES, REPRESENTS A PROJECTED REAL INCREASE OF SOME 8-9 PERCENT. THE DEFICIT IN THE GENERAL ACCOUNT BUDGET IS STILL FORECAST TO INCREASE 16.6 PERCENT, FROM FORECAST YEN 7.3 TRILLION (ABOUT \$25 BIL) IN ORIGINAL FY 1976 BUDGET TO YEN 8.5 TRILLION (\$29 BIL) IN FY 1977. THE LATTER REPRESENTS A DEFICIT OF ABOUT 4 1/2 PERCENT OF PROJECTED GNP.

4. REPORTED CHANGES BY THE CABINET THIS MORNING IN MOF PROPOSALS
ARE PRINCIPALLY TO INCREASE PROJECTED OUTLAYS IN THE CAPITAL
ACCOUNT BUDGET (THE FISCAL LOAN AND INVESTMENT PROGRAM OR FLIP)
AND, WITHIN THE GENERAL ACCOUNT BUDGET, TO PROVIDE ADDITIONAL
FUNDING FOR PUBLIC WORKS SPENDING. FLIP OUTLAYS ARE NOW PROJECTED
TO RISE ABOUT 18.1 PERCENT (TO YEN 12.5 TRILLION OR \$43 BIL,
INSTEAD OF THE 12.1 PERCENT IN THE MOF PROPOSALS. PUBLIC WORKS
SPENDING, WHICH FUKUDA FAVORS AS MEANS OF STIMULATING THE ECONOMY,
IS TO INCREASE 21.4 PERCENT IN THE CABINET PROPOSALS, AS
COMPARED WITH 19.1 PERCENT INCREASE IN MOF PROPOSALS. TAX CUTS
FOR FY 1977 ARE STILL OF THE MINI-TAX VARIETY, DESIGNED TO OFFSET
IMPACT OF INFLATION ON TAXPAYERS, AND WORTH ABOUT YEN 430 BIL
(\$1.5 BIL) IN FY 1977. TAX CUTS ARE PARTIALLY OFFSET BY OTHER TAX
INCREASES AMOUNTING TO YEN 168 BIL (\$0.6 BIL).

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